

CORPORATE PROFILE

USMX. INC., is involved in the exploration, development and production of gold properties in the United States.

Over the past twelve years
USMX has progressed
from an exploration company
into a fully integrated,
profitable mining company.

The Company, under financially conservative management, will continue to pursue its growth plans through exploration and acquisition of economically attractive opportunities in the minerals business, both domestically and internationally as may be warranted.

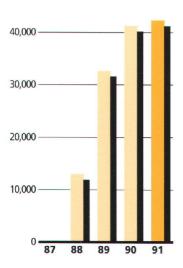
USMX is committed to remain at the forefront of emerging minerals industry producers.

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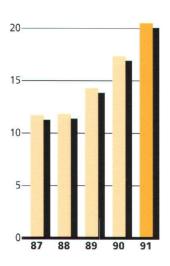
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STOCKHOLDERS' EQUITY \$'s in Millions

\$25-----



CORPORATE HIGHLIGHTS

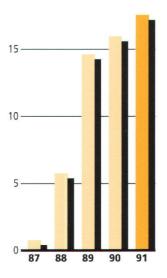
- Third consecutive year of excellent operating results:

 Record revenues of \$17.6 million. Net income of \$1.9 million

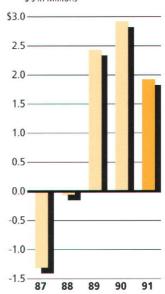
 Record gold production of 42.329 ounces

 Record stockholders' equity of \$1.34 per share, a 7% increase over the previous year
- Significant increase in ore reserves:
 355% increase in proven and probable reserves to
 545,500 ounces
 contained gold
- Yankee Mine construction 95% complete and under budget.
- Development projects initiated at Alligator Ridge for three additional potential mining units.
- Exploration and evaluation efforts initiated in Mexico.









By demonstrating its ability to operate profitably during this period of lower gold prices, it is apparent that USMX, with its sound production base, can continue to grow under current economic conditions.

Cash flow remains very strong at \$4.1 million for 1991. While earnings of \$1.9 million are very respectable given current economic conditions, net income for the year is lower than for 1990. This is

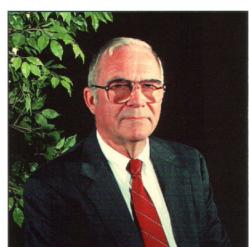
largely attributable to lower average gold prices realized and to increased cost of sales. Though cash operating costs are comparable to past results at \$258 per ounce produced (including royalties and mining taxes), the non-cash component in the total cost of sales figure has increased due to sunk costs attributable to the acquisition and development of a portion of USMX's current production. This situation will show gradual improvement as additional relatively low cost mining operations such as the Yankee Project at Alligator Ridge in White Pine County, Nevada, are put into production over the next several years.

USMX's continued strong financial position is very noteworthy. With no long-term liability other than reclamation accruals, and \$11.4 million in working capital available, USMX has the ability to continue to improve its production capability, and to sustain its

development efforts, as well as to pursue significant new growth through exploration and acquisition.

As you may be aware, it is USMX's corporate policy to attempt to hedge at least 50% of its scheduled gold production for two years into the future due to the unpredictability of gold prices and our need to ensure an acceptable revenue level. Because there have been very few good opportunities to accomplish this goal

during the past year, however, USMX is currently hedged only to the extent of about 50% of its scheduled sales for the next 12 month period at an average price of \$371 per ounce. This is less than we would like, but lack of acceptable hedging opportunities is a problem facing most mining companies principally involved with gold production. Should an acceptable opportunity be forthcoming in the future, it is our intent to significantly improve our current hedging position. USMX's average price realized from its 1991 gold sales was \$376 per ounce as compared to the average LME spot price of \$362 per ounce, representing a gain from hedging activities of approximately \$613,000.



The 1991 milestones include:

- Revenues increasing 9%
 to \$17.6 million
- Earnings of \$1.9 million
 or \$0.14 per share
- Stockholders' equity rising to \$20.1 million.
 or \$1.34 per share
- Gold production totaling
 42329 ounces
- Cash flow from operating activities of \$4.1 million.
 or \$0.29 per share
- Working capital increasing to \$11.4 million

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During 1991, USMX continued to produce gold from its Alligator Ridge, Casino, and Green Springs operations, and began production at its Winrock Mine. Our 42,000 ounce production goal for 1991 was achieved. Development at the Yankee Project was initiated on schedule in September, 1991, and construction is at this date nearly complete and under budget. First gold production from the Yankee Mine is targeted for the second quarter of 1992 and will provide an important portion of our scheduled 1992 total production.

USMX continued to focus its exploration efforts on its 34,000 acres of land holdings in the Alligator Ridge area where 91,000 linear feet of exploration and development drilling were completed during 1991. The USMX reserve and resource base has increased significantly to a current total of 683,000 ounces. This figure includes proven and probable, oxide reserves of 11,500,800 tons with an average grade of 0.046 ounces of gold per ton, or a total of 524,500 contained ounces of gold, plus an additional 21,000 recoverable ounces in existing heaps. Continued accelerated evaluation of the Alligator Ridge area potential is scheduled for the immediate future in an effort designed to define the Company's next production sites. Based on the results of our exploration efforts to date, it seems apparent that significant potential exists to expand the Alligator Ridge gold resource substantially, with an attendant increase in mine life and/or production rates.

Evaluation of attractive opportunities throughout North American also continues on a high priority basis. It is anticipated that this intensive evaluation program will show positive results in the near-term. Though we are focused on the United States, of note is the fact that we have extended our current efforts into Mexico where the economic opportunities have only very recently become favorable. A conservative, cautious study of available situations in stable portions of Latin America is warranted given the present problems facing the mining industry in the United States.

We at USMX also wish to assure our stockholders that the Company is committed to a responsible environmental policy. Environmental planning is a principal consideration in all of our exploration, development, and mine planning. Environmental controls and ongoing reclamation activities are an integral part of corporate life, particularly in the mining industry. USMX is actively pursuing excellence in this regard and has received only praise for its efforts from governmental agencies. To do any less than our best in this endeavor would be unacceptable and could jeopardize our corporate well-being.

Much of the strength of USMX rests with its people. We are particularly proud and appreciative of their efforts on behalf of the Company during 1991. I wish also to express my thanks to our Board of Directors for its support and counsel over these past months. Our Board consists of a very strong and able group of individuals, and USMX is most fortunate to have their assistance during its growth years.

USMX continues on its steady course of planned development and continued growth with financial stability. Our existing base of operations at Alligator Ridge is still expanding, and its potential continues to grow. It is now estimated that gold production from this area will exceed 50,000 ounces in 1992.

USMX management will continue its efforts to identify and take advantage of the opportunities presently existing in the mining industry. Our future as a sound, conservative, and profitable mining company remains bright. Your management will continue to strive to achieve our ultimate goal of significantly increasing the value of USMX for the benefit of the stockholders.

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Sincerely,

James A. Knox

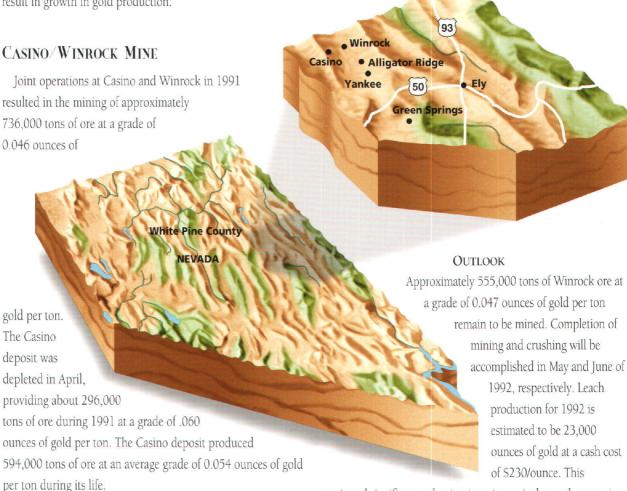
President and Chief Executive Officer

OPERATIONS REVIEW

USMX achieved record gold production in 1991 for the third consecutive year, producing 42,329 ounces from its four operating properties. The average cash cost of production for the year rose slightly to \$258 per ounce of gold, including royalties and mining taxes, due to diminishing production at Green Springs. However, USMX remains a low cost producer.

The year was also marked with significant achievements by the exploration and development groups to increase the reserve base in the Alligator Ridge Trend, which provides for continued efficient utilization of operating staff, equipment and facilities for the foreseeable future, and which should ultimately result in growth in gold production. Mining on the Winrock deposits commenced in July. Mine production for the year totaled 440,000 tons at a grade of 0.037 ounces of gold per ton. Although the grade at Winrock is considerably lower than Casino, the profitability of Winrock has been enhanced by both a much shorter ore haulage distance, 1.3 miles vs. 3.5 miles, and a lower strip ratio, 0.93:1 vs. 3.50:1.

A leach pad expansion was completed in June at the centralized process site to accommodate the Winrock production. Combined leach production at the Casino/Winrock plant resulted in approximately 20,000 ounces of gold, at an average cash cost of \$307 per ounce in 1991.



projected significant reduction in unit cost is due to the cessation of mining and crushing operations, which will greatly minimize costs during the second half of the year.

ALLIGATOR RIDGE MINE

The Alligator Ridge Mine (ARM) continued to be a significant, low cost gold producer in 1991. Gold production, primarily from re-leaching of the existing heaps, totaled more than 17,000

ounces at an average cash cost of \$179 per ounce. Gold production was enhanced by shallow drilling and blasting on certain sections of the heaps to fracture impermeable layers and to improve the percolation of gold-recovering solution through the heaps. This innovative approach to assist leaching will continue in the future and should ultimately extend the productive life of the heaps.

During the year, significant progress was made towards modernizing the ARM refinery to treat loaded carbon and produce dore bullion from all of the Company's Nevada properties. Construction of

these facilities, which is scheduled for completion in early 1992, will serve to further consolidate activities and increase efficiency in the Alligator Ridge area.

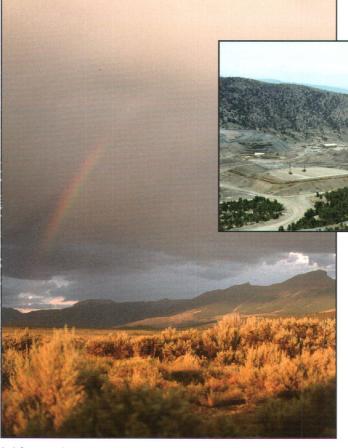
Considerable effort was also expended to upgrade the heap leach system and other plant facilities in order to bring them into compliance with current environmental standards. This overall effort to improve facilities and update permits should provide a solid basis for continued operations at ARM.

OUTLOOK

Releaching of the ARM heaps will continue during 1992 with production projected to be 10,500 ounces of gold at an estimated cost of \$244 per ounce.

A formal study was initiated in mid 1991 to evaluate the potential to resume mining activities at the ARM. The Vantage Basin study undertook the re-evaluation of geologic and assay data from 1,571 drill holes throughout the mine property. The

study successfully identified a total reserve of approximately 2,731,000



tons grading 0.038 ounces gold per ton, and was also successful in identifying targets for possible expansion of the reserves.

In 1991 approximately \$52,000 was spent on drilling a portion of the Vantage Basin. This work

partially delineated a reserve that was incorporated into the Vantage Basin Study. In 1992 approximately 29,000 feet of drilling are planned to totally develop the near surface oxide reserves and to conduct some initial exploration of the deep oxide and carbonaceous potential known to exist.

The Vantage Basin reserves represent a very viable opportunity for USMX to initiate near term production. The existing facilities, equipment and infrastructure should greatly minimize capital investment, provide operating efficiencies and significantly reduce the amount of environmental permitting.

DEVELOPMENT PROPERTIES

GREEN SPRINGS MINE

The Green Springs Mine continued to play an important role as a low cost gold producer during 1991, providing 4,984 ounces at an average cash cost of \$90 per ounce. All production was from re-leaching of the heaps. As of year end, Green Springs has produced approximately 67,000 ounces for a life of mine recovery of 91%.

OUTLOOK

The focus in 1992 will be on final reclamation of the property. Efforts will continue to reestablish vegetation in those areas where recontouring has been completed. Detoxification and stabilization of the heaps will be ongoing throughout the year, with minimal gold production resulting from the movement of solution through the heaps.

MONTANA TUNNELS MINE

The Montana Tunnels Mine is located in Jefferson County, Montana, and is operated

by Pegasus Gold. USMX is entitled to the greater of a 5% net profits royalty interest or a minimum advance royalty of \$60,000 per month until certain construction, land acquisition and associated financing and other costs have been recovered by Pegasus, and a 50% net profits royalty interest thereafter. During 1991, USMX received minimum advance royalties of \$720,000 from Montana Tunnels.

YANKEE PROJECT

The Yankee property, located six miles south of the Alligator Ridge Mine (ARM), was the site of previous mining activity by the former operators of ARM. USMX initiated a feasibility study in late 1990 to evaluate the reserves and project economics. The study was completed in June, 1991, and approval to proceed

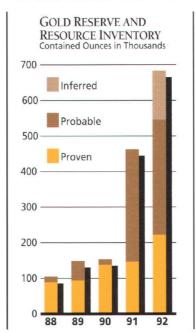
with project development was received shortly thereafter.

The Yankee project will utilize open pit mining, crushing, heap leaching and carbon adsorption to recover gold. Loaded carbon will be shipped to the nearby ARM refinery for further treatment.

Because permitting had been initiated by the previous owners, USMX was able to fast-track project construction. Construction commenced in September, 1991, and at year end construction of all facilities was nearly completed. Project activities have been highlighted by the fabrication and construction of a portable crushing plant utilizing surplus crushing equipment from ARM; projected operating cost savings

which will result from self-crushing are significant.

Mining, using a contract miner, began in October, 1991. Crushing of ore with USMX personnel is scheduled for February, 1992, with the commencement of leaching to begin during the second quarter of 1992 upon completion of the initial heap leach pad. Gold production in 1992 is estimated to be 15,400 ounces at a cash cost of \$293 per ounce.



RESERVES

Yankee's proven mineable ore reserves as of December 31, 1991 totaled 2.12 million tons grading 0.044 ounces of gold per ton. In addition, the probable reserve plus inferred resource total 1.18 million tons grading 0.053 ounces of gold per ton. The present mineable reserve is sufficient for a three year mine life.

All the gold mineralization encountered to date at Yankee is hosted by the Pilot Shale and is found at shallow depths. The host rock is oxidized and the gold microscopic, making open pit mining and heap leaching viable. The reserves are emplaced in numerous deposits aligned along the west flank of a northwest trending anticline. The mineralization is

> controlled by a series of faults that trend east to northeast, or perpendicular to the anticlinal axis. The Yankee Mine is located within a major northtrending fold belt designated the Alligator Ridge Trend by Company geologists.

EXPLORATION In 1991 approximately \$488,000 was spent on exploration in the Yankee Project area. The majority of the expenditure was for exploration and development drilling on the Saddle, Spur, Union, and Gray

deposits. Exploration expenditures to date by USMX on the Yankee Project equate to approximately \$5.85 per proven mineable ounce of gold.

In addition to drilling, significant geological mapping, geochemical sampling and geophysics were completed over most of the project in 1991. This work has successfully identified ten additional exploration targets. A minor amount of drilling on each has verified the presence of gold mineralization of comparable grade to that in the current mineable reserve.

Approximately 18,000 feet of exploration and development drilling are planned during the second half of 1992 to explore many of these targets and to increase the proven and probable reserve by year end.

OUTLOOK

The geologic understanding and target definition have matured considerably for Yankee. This

should allow the Company to increase the reserves in 1992 at minimal cost. The Yankee Mine is a very exciting development for USMX with a longer mine life than previous operations and with an excellent chance to increase this life beyond the present three years.

SOUTH CASINO/ POKER FLATS PROJECT

EXPLORATION

Exploration expenditures in 1991 of approximately \$213,000 made on the South Casino project succeeded in the further definition of shallow gold mineralization on the Poker Flats and Repeat targets. On December 31, 1991, a probable reserve of 500,000 tons grading 0.045 ounces gold per ton and

The gold mineralization is similar to that found at the Alligator Ridge and Yankee Mines. It is hosted by Pilot Shale that overlies massive Devonian limestones. This shale-siltstone host has been brecciated by numerous faults and intensely silicified. Gold mineralization discovered to date is found at shallow depths

Winrock/Casino

Plant Site

Casino Mine
South Casino
Project
Top Mine
East

an inferred resource of 208,000 tons grading 0.070 ounces gold per ton were estimated.

In addition to drilling in 1991, topographic base maps were generated for all of the project area with geological mapping and geochemical sampling completed on much of the prospective ground. This work has successfully identified seven additional target areas with favorable geology and geochemistry which will be explored in 1992.

Approximately 18,500 feet of drilling are planned for 1992 on the South Casino project. This will include further definition drilling on the Poker Flats and Repeat deposits and exploration drilling on the other seven identified targets.

Galaxy Project

East Bida Project

Facilitating open pit mining and heap leaching.

Saga Project

OUTLOOK

South Casino is a very

significant and exciting exploration project for USMX. It will be the primary focus, along with Vantage Basin, for our Exploration Group in 1992. The South Casino Basin, encompassing approximately 2,000 acres, is underlain by favorable host rocks, all of which are altered by hydrothermal processes to some extent. Sparse drilling has established the presence of low grade gold mineralization over much of the basin. The cut-off for future pit limits in the project area will probably be determined solely by economics due to the very large tonnage of low grade gold mineralization present at South Casino.

EAST BIDA/GALAXY PROJECT

HORSESHOE DEPOSIT **EXPLORATION**

During 1991 USMX spent approximately \$181,000 on the East Bida project. Most of the expenditure was for exploration and development drilling at the Horseshoe deposit as well as on geologic projections extending from this deposit to the northwest and southeast. In late 1991 and early 1992 additional infill drilling was successfully undertaken at Horseshoe to assist in the ore reserve definition.

The gold mineralization on the East Bida project is hosted by both Pilot Shale and intrusive rock which was emplaced along the northwest Bida Trend. The orebody outcrops along a ridge which will allow the deposit to be mined at a very low stripping ratio.

OUTLOOK

USMX will advance engineering and permitting on the Horseshoe deposit in 1992. Horseshoe, together with the nearby

Galaxy deposit and potential discoveries on

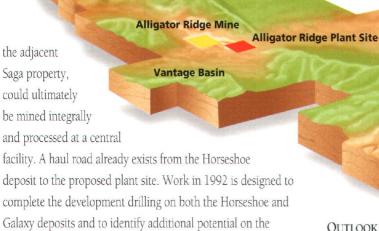
GALAXY PROJECT

A small proven reserve of approximately 406,000 tons grading 0.046 ounces gold per ton plus an additional inferred resource exist in the Galaxy Project area. This mineralization is within two miles of the Horseshoe deposit and within a mile of the proposed plant site. The deposit has been known for several years, and in 1991 USMX spent approximately \$23,000 on definition drilling in this area to assist in engineering.

Approximately \$77,000, which provides for 8,000 feet of drilling, will be spent in 1992 to complete the development drilling on the deposit and to explore several additional targets identified in 1991.

Although the gold mineralization at Galaxy is hosted in the Pilot Shale, the beds have been tilted vertically resulting in the development of slip faults in which the gold mineralization was deposited. The core of the deposit is high-grade with a low grade envelope surrounding it.

Several other areas with similar geology and favorable geochemistry exist on the Galaxy property that remain untested by drilling. Geological mapping, sampling and drilling on these targets are planned for 1992.



deposit to the proposed plant site. Work in 1992 is designed to complete the development drilling on both the Horseshoe and Galaxy deposits and to identify additional potential on the properties. Pending the results of this drilling and favorable engineering studies, this complex may well be a viable production unit for USMX in the near future.

Yankee Plant Site Yankee Mine OUTLOOK

Long Valley

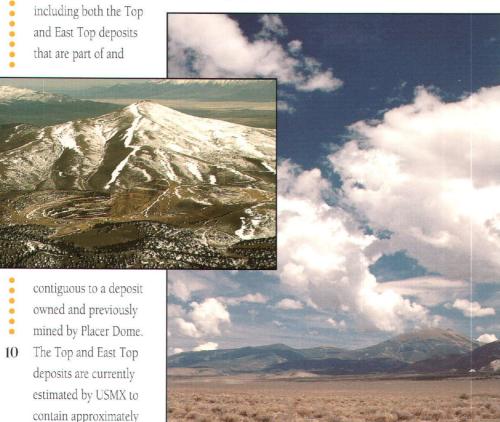
As stated above, the Galaxy deposit as well as any future discoveries on the property will be combined with the nearby Horseshoe deposit and processed at one central plant.

WEST BIDA/TOP PROJECT

In October 1991, USMX announced that a Purchase Option Agreement had been concluded with Placer Dome U.S., Inc. involving essentially all of the West Bida project area and

including both the Top and East Top deposits

The gold mineralization encountered on the Top and East Top deposits is emplaced in breccia zones created at the intersections of northwest and north-trending faults in Paleozoic sediments and intrusives along the Bida Trend.



OUTLOOK

The gold mineralization discovered on the West Bida project is of significant grade and represents a viable mining opportunity for USMX if Placer Dome elects not to exercise its Purchase Option. It is envisioned that the ore could be trucked via an existing haul road to the same plant site which may be developed for the Horseshoe and Galaxy deposits. Although the haulage distance would be approximately five miles downhill, the average ore grade of 0.08 ounces gold per ton is adequate to cover this additional transporta-

tion cost. Previous ore mined from Top for the account of our predecessors was trucked 17 miles to the Alligator Ridge Mine and heap leached at that facility.

contain approximately 150,000 ounces of gold.

Placer Dome has

committed to expend a minimum of \$500,000 for exploration work on that portion of the project area including the Top-East Top deposits prior to December 31, 1992, and to either exercise its option to purchase that block of ground for \$5,000,000 before March 1, 1993, or to return the property to USMX. Placer may also purchase a second block of adjacent claims in the project area for an additional \$6,000,000 at any time before March 1, 1994.

OTHER PROJECTS

KINSLEY MOUNTAIN, NEVADA

The Kinsley Mountain property, a joint venture with Cominco American Resources, which owns a 60% interest, is currently being evaluated by a third party for potential acquisition. Based on the

feasibility study completed by Cominco in 1988, the current proven and probable reserve is 2,100,000 tons grading 0.048 ounces gold per ton which equates to 100,800 ounces of contained gold.

BAGGS CREEK, MONTANA

In 1991 USMX signed a
Lease-Joint Venture with Hecla
Mining Company covering
USMX's Baggs Creek property
which allows Hecla to conduct
exploration. Previous
exploration by Exxon and
Freeport Gold identified a
geologic resource as well as
numerous exploration targets
on the claims. Hecla conducted drilling in 1991 and
anticipates that additional

drilling will be completed in 1992. USMX has the option to participate in a joint-venture with Hecla if justified or to receive a minimum net smelter return royalty.

OSCAR PROPERTY, NEVADA

In February, 1992, an agreement was reached with LAC Minerals U.S.A., Inc. to explore the Company's Oscar property located in Pershing County, Nevada, adjacent to LAC's Rosebud discovery of 5.2 million tons grading 0.123 ounces gold per ton. Exploration work by LAC to date has identified geologic and geophysical targets that will be tested in 1992.

After certain exploration expenditures are made by LAC, USMX will have the right to participate in a joint-venture or to revert to a minimum net smelter return interest.

GENERAL EXPLORATION AND ACQUISITION

The primary focus of USMX's reconnaissance and acquisition efforts was in the western United States in 1992. However, due to the definite possibility that drastic changes in the mining law may

soon occur and to the ever increasing environmental and regulatory constraints being placed on mining companies in the United States, it seemed prudent for the Company to diversify its exploration focus. In 1991 USMX established wholly-owned subsidiary companies in both British Columbia (USMX Mining Inc.) and Mexico (MXUS S.A. de C.V.). At the present time the Company has one property in Sonora, Mexico.

USMX increased its acquisition-evaluations activity considerably in 1991 to take advantage of the numerous opportunities

that have been presented to the Company, in part due to the current adversity facing the industry. The Company continues to be conservative in its approach to property acquisition and will endeavor to select only those few situations that have definite merit and the potential to significantly improve the Company's financial position.

In 1992 USMX has allotted approximately \$823,000 of its \$2,000,000 exploration budget for reconnaissance and acquisition activities. Additional corporate funds are available if justified. The Company intends to focus its attention on precious metals but will continue to evaluate other opportunities in the industry that have merit.





UsmX continued its commitment to running environmentally safe operations and to timely mine reclamation. Additionally, USMX made significant strides towards acquiring reclamation bonds for all of its properties. A bond

for Casino/Winrock was successfully obtained during the year, while reclamation plans for Yankee and ARM were prepared and submitted to the State of Nevada and Bureau of Land Management for their review and acceptance. Although USMX's properties are not required to be bonded until October 1993, USMX has taken the initiative to fulfill its obligation in a timely manner.

All producing properties operated without an environmental incident during 1991, and no citations were received. At ARM, solution system leakage problems which were inherited with the property have been

abated, and the system was modernized to bring it into compliance with current practices and standards.

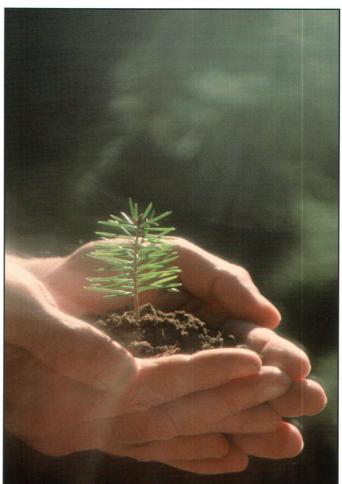
Reclamation work continued at Green Springs. By year end the mining and crushing areas had been recontoured and partially reseeded. At Yankee, ongoing reclamation has been built into the waste dump construction technique, and pit

backfilling will be utilized as much as possible.

Reclamation at Casino will begin in 1992 utilizing USMX personnel and equipment. Future reclamation work at all of the properties will continue to be an ongoing commitment, and to the fullest extent possible, USMX will dedicate its forces to fulfill the task.

As USMX considers its future production needs, environmental planning will constitute a significant part of the overall mine and plant design, as well as operating strategy. Through this type of effort environmental impacts can be substan-

tially mitigated. USMX will seriously pursue its environmental obligations required to maintain its current high level of corporate responsibility.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

LIQUIDITY

For the year ended December 31, 1991, although net income amounted to \$1.9 million, the Company generated approximately \$4.1 million in cash from its operating activities as a result of charges to income which did not require cash; principally depreciation, depletion and amortization of \$1.8 million and property abandonments of \$0.5 million. In November 1991, the Company received \$2.5 million of cash from the issuance of 1 million shares of the Company's common stock. Management believes that, given present gold prices, the Company should be able to maintain its current level of liquidity.

CAPITAL INVESTMENT

The year ended December 31, 1991 was marked by the investment of \$5.7 million in mineral properties, plant, and equipment, primarily at the Company's Alligator Ridge property, including a portion of the exploration costs incurred as discussed below. In addition, the Company invested \$297,000 in other assets of which \$275,000 was devoted to the purchase of Certificates of Deposit provided to regulatory agencies as surety related to reclamation obligations.

The Company expended approximately \$2.0 million in exploration activities of which approximately \$1.0 million was expended on various Alligator Ridge targets including \$488,000 at the Yankee Project. In addition, the Company invested approximately \$287,000 in completing its internal feasibility study for the Yankee Project.

In June 1991, the decision was made to proceed with development of the Yankee Project. The Company currently estimates the total capital investment in Yankee will be approximately \$4.4 million, excluding cash reclamation bonding requirements estimated at approximately \$0.5 million. Through December 31, 1991, the Company invested approximately \$3.1 million in the construction of the Yankee Project and in the refurbishing of the crusher to be used at Yankee. The Company also invested approximately \$555,000 in the design and construction of facilities related to its Casino/Winrock Project.

CAPITAL COMMITMENTS AND RESOURCES

One of the challenges facing Company management is that of locating and developing additional production units at the Company's Alligator Ridge property and elsewhere. While it can be said that there probably will be additional production units, it is impossible to predict with any certainty when the next production unit will be developed. For that reason, it is impossible to predict the timing and amount of capital required to develop future production units. For 1992, management of the Company believes that it will have sufficient cash from its existing cash balances, cash flows from operations, and anticipated bank borrowing capacity to fund planned capital expenditures, and to support operations, an exploration budget of approximately \$2.0 million and other corporate activities.

Long term sources of capital include cash flows from operating activities, and could also include project financing through banks and lending institutions, as well as joint venture financing. The Company is continually engaged in evaluating mineral prospects for exploration, development and acquisition. As a result of these activities, the Company's need for capital is subject to change. Depending upon its need, the Company may investigate external sources of capital.

The Company is in the process of negotiating a \$3,000,000 revolving line of credit with a bank using its interest in Montana Tunnels and its dore' and finished gold inventory as collateral. In addition the Company is investigating the feasibility of entering into a sale and lease-back of its renovated crusher. If management determines that such a transaction is in the best interests of the Company and if such a transaction were consummated, of which there can be no assurance, it could provide additional capital in the range of \$1 million to \$1.5 million.

RESULTS OF OPERATIONS

The Company achieved net income for the year ended December 31, 1991 of \$1,928,000 compared with net income of \$2,923,000 for 1990 and \$2,435,000 for 1989. Fluctuations in the Company's results of operations arise primarily from three factors: (1) changes in the sales volume and selling price of gold, (2) changes in the cost of gold sold as properties with higher or lower production costs are added to the production mix and as those relatively short lived properties cycle from the early, high cost phase of production to the late, lower cost phase and, (3) the cost of mineral properties abandoned during any given period.

CHANGE IN THE VOLUME AND SELLING PRICE OF GOLD

The following table analyzes the variance in gold sales revenue for the years ended December 31, 1991, 1990, and 1989:

		1000
Year Ended December 31, 1991	1990	1989
REVENUE VARIANCE ANALYSIS	AND SHAPE	The state of
Ounces of		
gold sold 43,800	34,800	30,600
Average price	5 1,000	30,000
realized	Perit Last	ALC: X
	¢ 412	t 110
per ounce \$ 376	\$ 413	\$ 440
VARIANCES		
Gold sales	1	
revenue was		
higher (lower)		Table 1
than the previous		
year due to:	N. Own	
More gold	7.00	
sold \$ 3,705,000	\$1,845,000	\$8,212,000
	\$1,043,000	\$ 0,212,000
Higher (lower)	(000 000)	505.000
gold price. (1,602,000)	(929,000)	595,000
	CAN PAGE	2000
Increase (decrease)	Carte Vine	
in gold sales	- The 199	
revenue over	Part :	
the preceding		
year \$ 2,103,000	\$ 916,000	\$8,807,000

The decrease in the average price realized per ounce is attributable to the decline in the market value of gold.

Cost of sales, excluding mining taxes and production royalties, was \$11,144,000 or approximately \$255 per ounce for 1991,

compared to \$8,009,000 or approximately \$230 per ounce for 1990 and \$8,613,000 or \$281 per ounce for 1989. The fluctuation in cost of ounces sold is a result of the change from period to period in the mix of production from the Company's mines and the change in the cost of production through-out the life of each mine as illustrated in the following charts. The graph at the right compares the cost of gold sold per ounce by mine site for the year ended December 31, 1991 versus the comparable periods of 1990 and 1989:

In 1991, the heaps at the Alligator Ridge Mine produced approximately 16,800 ounces of gold. At the beginning of 1991, management estimated there were a total of 15,000 ounces remaining in the heaps. During the fourth quarter of 1991, based on the grade and volume of solutions produced by the heaps, management revised the estimate upward by approximately 11,400 ounces to reflect an estimated 1992 production

of 10,500 ounces. This revision had the effect of significantly reducing the average cost of gold sold in 1991 and deferring approximately \$1.8 million in related inventory costs.

The graph at the right illustrates the change in mix of ounces sold during the year ended December 31, 1991 versus 1990 and 1989:

During 1991, the Company incurred \$323,000 in mining taxes compared to \$551,000 in 1990 and \$103,000 in 1989. The decrease in mining taxes from 1990 to 1991 was due primarily to the lower gross profit realized in 1991. Also, the Company incurred \$489,000 in royalty expense for 1991 compared to \$97,000 for 1990 and none for 1989. The increase in royalty expense in 1991 is due principally to increased production at Alligator Ridge and Casino/Winrock in 1991.

COST OF MINERAL PROPERTIES ABANDONED

Mineral properties which management determined no longer held sufficient promise to justify the cost required to maintain and

which had historical cost totaling \$502,000 were abandoned and written off during the year ended December 31, 1991 compared to \$1,678,000 for 1990 and \$411,000 for 1989.

OTHER FACTORS

Prospecting costs during 1991 and 1990 were lower than 1989 as the Company discontinued its exploration activities in the southeastern United States and reduced prospecting activities subsequent to the purchase of Alligator Ridge.

Other income was higher in 1990 as compared to 1991 due principally to \$221,000 more in interest income in 1990 compared with 1991, a gain on disposition of assets in 1990 of \$125,000 principally arising from the disposition of the Company's properties in the southeastern United States, and net gain from settlement of litigation in 1990 of \$373,000.

Income tax expense represents primarily current and deferred Federal Alternative

Minimum Taxes. The utilization of the Company's book net operating loss carryforward offset a portion of the tax provisions, and has been classified as an extraordinary item.

OUNCES SOLD BY PRODUCTION UNIT

COST PER OUNCE SOLD

Green

Springs

Casino/

Winrock

Weighted

Average

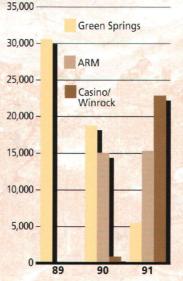
ARM

\$1,200

1.000

800

200



TRENDS AFFECTING FUTURE RESULTS OF OPERATIONS

As previously stated, fluctuations in the Company's results of operations arise primarily from three factors: (1) changes in the sales volume and selling price of gold, (2) changes in the cost of gold sold and, (3) the cost of mineral properties abandoned during any given period. The following is management's view of trends in these factors.

CHANGE IN THE VOLUME AND SELLING PRICE OF GOLD VOLUME

Management currently expects that gold production for 1992 will exceed 50,000 ounces compared to production of approximately 42,000 ounces in 1991. The portion of 1992 gold production which will be sold in 1992 will depend on a number of factors, including cash requirements.

PRICE

The price of gold has been trending downward over the past several years, making a five year low during the third quarter of 1991.

Most observers believe there is no reason to expect that gold prices will rise significantly in the near term. Although management strives to protect revenues and cash flows by hedging a portion of its production, it is not possible to reliably predict the price of gold to be realized in the future for unhedged production.

CHANGE IN THE COST OF SALES

The Company's average cost of gold sold will continue to fluctuate as costs at individual mine sites fluctuate and as the mix of production continues to change.

The graph at the right illustrates the average cost per ounce of gold sold for the years ending December 31, 1989 through 1992 (1992 is estimated):

If the heaps at the Alligator Ridge Mine are totally depleted in 1992, cost of gold sold should average approximately \$330 per ounce in 1992. However, every 1,000 ounces of additional recovery is estimated to reduce average cost of gold sold by approximately \$5 per ounce. While there can be not

approximately \$5 per ounce. While there can be no assurance that there will be additional ounces remaining in the Alligator Ridge Mine heaps at the end of 1992, management believes it is reasonable to assume that some additional production will be obtained from those heaps in 1993.

The graph at the right illustrates the mix of sales for the years ending December 31, 1989 through 1992, assuming the Company sells all available inventory in 1992:

COST OF MINERAL PROPERTIES ABANDONED

The cost of mineral properties abandoned in any period is a function of the results of the Company's exploration efforts. The Company currently expends approximately \$2 million per year in property acquisition and exploration. The Company makes every effort to maximize the results of its exploration efforts. However, exploration for economically recoverable minerals is risky. Accordingly, while it is probable there will be abandonment losses in the future, it is not possible to predict either the timing or amount of property abandonments.

OTHER MATTERS

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109,

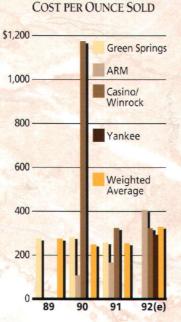
Accounting for Income Taxes, ("SFAS 109"). Among other things, SFAS 109 requires that deferred income tax balances be adjusted to, and maintained thereafter at statutory rates in effect when the taxes are expected to be paid. Under current rules, deferred income taxes are established at tax rates in effect when the associated timing differences arise. SFAS 109 is not required to be adopted until the first quarter of 1993. The Company has not completed the evaluation of the effect of SFAS 109 on its consolidated financial statements.

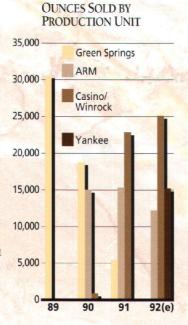
In December 1990, the Financial Accounting Standards Board issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions", which requires companies to accrue the expected cost of providing postretirement benefits other than pensions over the years that the employees render the service. The Statement is effective for fiscal years beginning after December 15, 1992, although earlier adoption is permitted, and

allows companies to recognize any excess or deficiency of plan assets over obligations either immediately as the effect of a change in

accounting principle, or on a delayed basis as a component of postretirement benefit cost.

Because the Company does not provide postretirement benefits of the type contemplated by the Statement, there will be no effect on the Company's future financial statements.





CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

USMX, Inc. And Subsidiaries

(Amounts in thousands) December 31	, 1991	1990
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,523	\$ 4,878
Inventories		7,665
Other		278
Total Current Assets	14,140	12,821
Property, plant and equipment, at cost:		
Undeveloped mineral properties	3,917	3,668
Construction in progress	3,143	0
Producing mineral properties	4,666	3,288
Mine buildings and equipment	6,235	5,844
Vehicles, furniture and equipment	496	491
	18,457	13,291
Less accumulated depreciation,		(F. 000)
depletion and amortization		(5,008)
Net Property, Plant and Equipment	THE RESERVE OF THE RE	8,283
Other assets		28
Total Assets	\$ 26,195	\$ 21,132
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,640	\$ 1,272
Accrued salaries	113	44
Accrued reclamation.	484	199
Federal income taxes payable	340	0
Other accrued liabilities		600
Royalty payable	All particular and the second of the second	124
Total Current Liabilities	2,713	2,239
Long term liabilities:		
Estimated reclamation liability	1,467	1,485
Deferred income taxes Deferred rent		0
		49
Total Long Term Liabilities	1,680	1,534
Commitments and contingencies (Notes 12)		
Common stock subject to potential put.	1,750	0
Stockholders' equity:		
Preferred stock, \$.001 par value, 20,000,000 shares authorized, none issued		
Common stock, \$.001 par value, 45,000,000 shares authorized, 14,954,000		
shares issued and outstanding as of December 31, 1991, 13,906,000 shares		
issued and outstanding as of December 31, 1990	15	14
Additional paid-in capital	15,776	14,995
Treasury stock, at cost.	(48)	(31)
Retained earnings	The second secon	2,381
T. 1C. 11 11 7F .	20,052	17,359
Total Stockholders' Equity		

CONSOLIDATED STATEMENTS OF OPERATIONS

USMX, Inc. And Subsidiaries

(Amounts in thousands, except per share data) Years Ended December 31,	1991	1990	1989
Sales of gold	\$ 16,461	\$ 14,358	\$ 13,442
Costs applicable to sales: Cash production costs Depreciation, depletion, amortization	9,527	6,739	6,568
and reclamation accruals Mining taxes Production royalties	1,617 323 489	1,270 551 97	2,045 103 0
	11,956	8,657	8,716
Gross profit	4,505	5,701	4,726
General and administrative expenses	2,013	1,901	2,045
Gross operating margin	2,492	3,800	2,681
Prospecting costs	522 502	672 1,678	844 411
Income from operations	1,468	1,450	1,426
Other income (loss); Royalty income	720 230 153	720 451 525	720 390 4
	1,103	1,696	1,114
Income before income taxes and extraordinary item	2,571 681	3,146 844	2,540 492
Income before extraordinary item Extraordinary item: Tax benefit arising from carryforward of	1,890	2,302	2,048
prior year net operating loss	38	621	387
Net income	\$ 1,928	\$ 2,923	\$ 2,435
Income per common share: Income before extraordinary item Extraordinary item	\$ 0.13 0.01	\$ 0.17 0.04	\$ 0.15 0.03
Net income per common share	\$ 0.14	\$ 0.21	\$ 0.18
Weighted average shares outstanding	14,171	13,830	13,799

The accompanying notes are a part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

USMX, Inc. And Subsidiaries

(Amounts in thousands)	Years Ended December 31,	1991	1990		1989
Cash flows from operating activ					
	netals	\$ 16,461	\$ 14,358	\$	13,442
	nployees	(12,455)	(11,203)		(9,969)
Royalties paid in each		(521) (368)	(297) (428)		(103) (120)
		720	720		720
		230	451		390
		153	525		4
	nds received	(101)	(257)		(105)
Net cash provided by op	perating activities	4,119	3,869		4,259
Cash flows from investing activ					
Acquisition of Alligator Ridge	property	0	(1,800)		0
Additiona to property plant a	able equity securities	(5,710)	(3,726)		742 (1,793)
Proceeds from sales of proper	nd equipmentty and equipment	(5,710)	189		(1,793)
	ty and equipment	(297)	0		0
		(17)	32		121
Net cash (used in) inves	ting activities	(6,006)	(5,305)	OT A	(930)
Cash flows from financing activ	rities:				
Proceeds of issuance of comm	non stock	2,532	0		24
Other, net		0	(20)		(205)
Net cash provided by (u	sed in) financing activities	2,532	(20)		(181)
Net increase (decrease) in cash	and cash equivalents	645	(1,456)		3,148
Cash and cash equivalents at be	eginning of year	4,878	6,334		3,186
Cash and cash equivalents at er	nd of year	\$ 5,523	\$ 4,878	\$	6,334
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINA	NCING ACTIVITIES				
During 1990, the Company acc property for a cash payment of					
	\$1,000,000 as follows.		\$ 3,830		
Liabilities incurred or assumed			(2,030)		
			\$ 1,800		
	AT A SECTION OF THE S				

The accompanying notes are a part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

USMX, Inc. And Subsidiaries

(Amounts in thousands)	Years Ended December 31,	1991	1990		1989
RECONCILIATION OF NET INCOME TO NET	CASH				
PROVIDED BY OPERATING ACTIVITIES					
Net income		\$ 1,928	\$ 2,923	\$ 2	2,435
Adjustments to reconcile net income					
to net cash provided by operating acti	vities:	State Control			
Depreciation, depletion and amortization					1-2
charged to costs and expenses		1,835	526	,-	1,530
Cost of mineral properties abandone	d	502	1,678		411
Other, net		(1)	274		121
Changes in assets and liabilities:			Land To		34
(Increase) in inventories		(567)	(2,235)		(822)
Depreciation, depletion and amortization					
included in ending inventories		283	835		725
(Decrease) in accounts payable and a	accrued expenses	(63)	(5)		(149)
Increase (decrease) in accrued salarie	PS .	69	(75)		42
Increase in federal income taxes paya	ible	340	T was		To the Co
(Decrease) in other accrued liabilities		(494)	0		0
(Decrease) in accrued royalties		(94)	(211)		0
Increase in accrued reclamation		267	118		44
Increase in deferred income taxes		213	0		0
Other changes in assets and liabilitie		(99)	41		(78)
Net cash provided by operating acti	vities	\$ 4,119	\$ 3,869	\$ 4	1,259

The accompanying notes are a part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

USMX, Inc. And Subsidiaries

(Amounts in thousands except shares)		100			Retained
	Commo Number of Shares	n Stock Amount	Additional Paid-in Capital	Treasury Stock	Earnings (Accumulated Deficit)
Balance at December 31, 1988	13,791,000	14	14,787	0	(2,977)
Stock options exercised Net income	10,000 —		24	_	
Balance at December 31, 1989	13,801,000	14	14,811	0	(542)
Shares issued as compensation Treasury stock acquired Net income	105,000 — —	Ξ	184 — —	(31)	 2,923
Balance at December 31, 1990	13,906,000	14	14,995	(31)	2,381
Shares issued for cash, net of amount subject to potential put of \$1,750	1,048,000	1	781 — —	 (17) 	1,928
Balance at December 31, 1991	14,954,000	\$ 15	\$ 15,776	\$ (48)	\$ 4,309

The accompanying notes are a part of these consolidated financial statements.

NOTE 1 - FORMATION AND OPERATIONS OF THE COMPANY

U.S. Minerals Exploration Company was formed in October 1979 for the purpose of acquiring, exploring, developing and producing mineral and oil and gas reserves. On February 4, 1988, U.S. Minerals Exploration Company changed its state of incorporation and merged with and into a wholly-owned subsidiary, USMX, INC. (the "Company"), which is the surviving entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

The Company considers cash in banks and all highly liquid investments, purchased with a maturity of three months or less, to be cash equivalents.

INVENTORIES

Raw ore, work-in-process, and finished goods inventories are stated at the lower of average cost or market value. Materials and supplies are stated at the lower of first-in, first-out cost or market.

MINERAL PROPERTIES

The Company's policy is to charge to operations costs associated with identifying prospective mineral properties and to capitalize the costs of acquiring, exploring and developing unproven mineral properties. For properties subsequently placed into production, the applicable capitalized costs are depleted using the units-of-production method, based upon the ratio of tons of ore mined or processed to the estimated total proven and probable ore reserves of the project.

Capitalized costs related to sold or abandoned properties are charged against operations at the time the property is sold or abandoned. Proceeds from rentals and option fees relating to undeveloped mineral properties in which the Company has an economic interest are credited against capitalized property costs and no gain is recognized until all costs have been fully recovered.

DEPRECIATION AND AMORTIZATION

Mine buildings and equipment are amortized using the units-of-production method based upon the ratio of tons of ore mined or ounces of gold produced during the period to the estimated total reserves of the related property. Vehicles, furniture and equipment are depreciated using the straight-line and the declining balance methods over estimated useful lives of two to five years. The cost of normal repairs and maintenance is charged to operations as incurred. Significant expenditures which increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset. Upon retirement or disposition of property and equipment, related gains or losses are recorded in operations.

RECLAMATION COSTS

The Company records a liability for the estimated cost to reclaim mined land by recording monthly charges to production costs over the life of the mine. The accrued reclamation liability is reduced as reclamation expenditures are made. The majority of reclamation expenditures are made after mining operations cease.

INCOME TAXES

Deferred income taxes are provided for timing differences arising from recording revenue and expenses in different periods for federal income tax and financial reporting purposes. Investment tax credits are recorded as reductions of income tax expense in the year such credits are utilized.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, ("SFAS 109"). Among other things, SFAS 109 requires that deferred income tax balances be adjusted to, and maintained thereafter at statutory rates in effect when the taxes are expected to be paid. Under current rules, deferred income taxes are established at tax rates in effect when the associated timing differences arise. The Company is not required to adopt SFAS 109 until the first quarter of 1993. The Company has not completed the evaluation of the effect of SFAS 109 on its consolidated financial statements.

BY-PRODUCT REVENUES

Revenues from sales of by-products (principally silver) are treated as a reduction of the cost of sales.

FORWARD SALES

At various times, the Company sells gold forward and executes put or call option contracts on gold. The results of these activities are reflected in operations as a component of gold sales revenue at the time the related ounces of gold are delivered. Cash flows from these hedging activities are classified in the same category as gold sales revenue in the accompanying statements of cash flows.

NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per share is based on the weighted average number of common shares outstanding during the period.

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RECLASSIFICATIONS

Certain amounts in the accompanying statements of operations for the years ended December 31, 1990 and 1989 have been reclassified to conform to the classifications used in 1991. The Company changed its method of presenting the Consolidated Statement of Cash Flows from the indirect to the direct method in 1991. The Consolidated Statements of Cash Flows for 1990 and 1989 have been restated to conform to the new method of presentation.

(Continued)

NOTE 3 - INVENTORIES

Inventories consisted of the following:

December 31,	1991	1990
Gold bullion and dore' \$	1,170,000	\$ 2,517,000
Gold in process	5,056,000	4,240,000
Ore on stockpile	1,434,000	269,000
Materials and supplies	289,000	639,000
Total inventories \$	7,949,000	\$ 7,665,000

As of December 31, 1990, management reduced the carrying value of inventories produced at the Company's Casino Mine. As a result, Casino inventories at that date are stated at approximately \$647,000 less than historical cost, which amount is included in cost of sales in the accompanying statement of operations for the year ended December 31, 1990.

NOTE 4 - REPURCHASE AGREEMENTS

Securities purchased under agreements to resell result from transactions that are collateralized by negotiable U.S. Government securities and are carried at the amounts at which the securities will subsequently be resold. It is the policy of the Company not to take possession of securities purchased under agreements to resell. The Company values the securities on a daily basis and provisions are made to obtain additional collateral if the market value of the underlying assets is not sufficient to protect the Company. At December 31, 1991, agreements to resell securities purchased in the amount of \$3,519,000 with a market value of \$3,520,000, and with an average maturity of one day were outstanding with Shearson Lehman Brothers. Due to the highly liquid nature of these repurchase agreements, the Company has included them in cash and cash equivalents in its statements of financial position.

NOTE 5 - TRANSACTIONS WITH AFFILIATES

In January, 1986, the Company entered into a revised agreement with Centennial Minerals Ltd. a subsidiary of Pegasus Gold, Inc. (Pegasus) for the development of the Montana Tunnels property. Pursuant to the agreement, Pegasus developed the property, acquired a 100 percent working interest in the project, and commenced mine and mill operations in March 1987. The operations at Montana Tunnels achieved defined operating status on October 1, 1987. Under the agreement, the Company will receive the greater of \$60,000 per month or a five percent net profits interest until Pegasus recovers payout of capital and other defined costs estimated by Pegasus to be approximately \$68 million as of December 31, 1991.

After payout, the Company will receive fifty percent of the net profits from the property. As of December 31, 1991 the economics of the Montana Tunnels project were such that payout is unlikely to occur. For each of the years ended December 31, 1991, 1990 and 1989, the Company received \$720,000 in royalty income from the Montana Tunnels property.

In October, 1987 the Company entered into a Mining Venture Agreement with Pegasus with respect to exploration, evaluation, development and mining of several leases in the Alligator Ridge area of interest in White Pine County, Nevada. As of December 31, 1990, the Winrock and Casino properties were the only remaining properties subject to the agreement. During 1990 and 1989 approximately \$3,221,000 and \$344,000, respectively were billed to Pegasus by the Company relating to this agreement. Pegasus ceased making payments on their share of the costs incurred under the agreement after March 31, 1990.

As of December 31, 1990, the Company had reached agreement in principle to acquire Pegasus' interest in the Mining Venture Agreement (including approximately 5,500 ounces of gold inventory at December 31, 1990) in exchange for amounts due from Pegasus under the agreement of approximately \$3,269,000 plus cash of \$600,000. The agreement also provides for royalty payments to Pegasus under certain circumstances of gold price and production levels from the subject properties. The Company's consolidated statement of financial position as of December 31, 1990 gives effect to the acquisition which was formally executed in March, 1991.

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT MONTANA TUNNELS

The Company owns a five percent net profits interest in this property and, accordingly, the carrying value has been classified as a producing mineral property in the Company's consolidated statements of financial position. The unamortized capitalized costs of the Montana Tunnels property were \$287,000 and \$370,000 at December 31, 1991 and 1990, respectively.

ALLIGATOR RIDGE

Effective May 1, 1990, the Company completed the purchase of the Alligator Ridge Mine and approximately 26,000 acres in the Alligator Ridge trend, located in White Pine County, Nevada. The Company paid cash of \$1,800,000 for the property and incurred approximately \$37,000 in pre-acquisition costs. In addition, the Company assumed trade payables of approximately \$210,000 and accepted responsibility for reclamation of the property. In connection with the acquisition, the Company recorded an estimated liability for reclamation costs, net of estimated gold production during the reclamation process, of \$1,485,000.

The Company also granted a net smelter return royalty on future gold settlements, payable to one of the previous owners. The royalty owner elected to take payment of the royalty in kind. Accordingly, the Company recorded, as part of the cost of acquisition, approximately \$335,000 representing the estimated cost to produce the royalty ounces expected to be delivered.

The total purchase price of the Alligator Ridge properties, including liabilities assumed, was approximately \$3,830,000. The purchase price was allocated based on management's estimate of the relative fair values of the assets acquired.

(Continued)

The consolidated statement of financial position as of December 31, 1991 includes approximately \$623,000 of idle machinery and equipment acquired as part of the Alligator Ridge purchase. During 1991, management determined to retain certain of the equipment for use in possible future mining operations and to liquidate the balance in 1992. Management does not expect that the Company will realize any significant loss on these assets.

NOTE 7 - STOCK OPTIONS

The Company's Board of Directors has authorized the adoption of three stock option plans, (the "1982 Plan", the "1987 Plan", and the Non-discretionary Plan for Non-Employee Directors ("Directors' Plan")), which cover a total of 1,700,000 shares of common stock available for grant to employees and directors of the Company.

Under the 1982 Plan, the Company may grant only incentive stock options, while the 1987 Plan permits the Company to grant both incentive stock options as well as non-incentive stock options. Incentive stock options granted under the 1982 and 1987 Plans are exercisable at prices equal to the market value of the common stock at the date of grant. The option prices of non-incentive stock options granted under the 1987 Plan may be less than the market value of the common shares as of the grant date. Options expire at such time as the Option Committee of the Board of Directors determines, but no later than ten years from the grant date.

The Director's Plan was authorized by the Company's Board of Directors in 1991, subject to approval by the stockholders, to afford non-employee directors an opportunity for investment in the Company and the incentive advantages inherent in stock ownership of the Company. Options granted under the Plan are exercisable at prices equal to the market value of the common stock at the date of grant. Options granted under the Plan are exercisable in full on the date of grant except that no options may be exercised until the plan is approved by the stockholders.

Shares acquired pursuant to the Directors' Plan may not be sold, transferred or otherwise disposed or for a period of at least six months following the later of the date of grant or the date of stockholder approval. Under the terms of the Plan, existing directors who elected to participate were issued options to purchase a total of 50,000 shares of the Company's common stock upon adoption of the plan. Thereafter, each non-employee director who elects to participate is automatically granted an option to purchase 10,000 shares of the Company's common stock upon joining the Board. In addition, on October 1 of each year each participant is automatically granted an option to purchase an additional 5,000 shares. Options granted under the plan expire three years from the date of grant except that an option will expire, if not exercised, ninety days after the optionee ceases to be a director of the Company.

Changes in stock options for the years ended December 31, 1989 and 1990 and 1991 are as follows:

Expired/Tendered for exchange	(67,000) 204,500 372,900 580,400	4.75-7.38 1.72-1.82 1.72-1.88 \$ 1.72-4.75
Expired or canceled Granted Outstanding at	(186,500) 358,000	1.72-4.75 1.13-1.63
December 31, 1990 Exercised Expired or canceled Granted	751,900 (20,000) (183,000) 308,000	\$ 1.13-1.88 1.44-1.72 1.38-1.88 1.16-1.88
Outstanding at December 31, 1991	856,900	\$ 1.13-1.88

During the year ended December 31, 1989, the Stock Option Committee of the Board of Directors voted to offer to certain employees the right to exchange their existing options for options to purchase the same number of shares at the then fair market value of the Company's stock. The effect of the exchange offers was to offer to the employees the opportunity to reduce the exercise price of the outstanding options from a range of \$4.75-\$7.38 per share to a range of \$1.72-\$1.82 per share.

The exchange offers pertained to options to purchase 54,500 common shares which were outstanding under the 1982 Plan, and options to purchase 147,000 common shares outstanding under the 1987 Plan.

NOTE 8 - EMPLOYEES' BENEFIT PLANS AND COMPLETION BONUS AGREEMENTS

Effective July 1, 1987, the Company adopted an Employee Savings and Investment Plan under section 401(k) of the Internal Revenue Code, which covers all full-time employees. The plan is a defined contribution plan and allows employee contributions of up to ten percent of pre-tax compensation, limited to the maximum deferral allowed by the Internal Revenue Service.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company contributes at least ten and not more than one hundred percent of the amount contributed by the employees, up to a maximum of six percent of pre-tax compensation. For 1991, 1990 and 1989, the Board of Directors has set the Company's contribution at fifty percent of the first six percent of employee contributions. For 1991, 1990 and 1989, the Company's contributions were approximately \$85,000, \$60,000 and \$52,000, respectively. Participants vest in the Company's contributions based upon years of service, and are fully vested after four years of service.

In the fourth quarter of 1987, the Company entered into incentive stock bonus agreements with substantially all employees involved in the Green Springs Mine operation. Under the terms of these agreements, a stock bonus was paid in November, 1990 to employees who continued their employment until June 30, 1990. The stock bonus was computed quarterly and equaled the number of shares of the Company's stock determined by dividing ten percent of the employees' compensation for the quarter by the average closing price per share for the last ten trading days of the quarter. The cost associated with each quarterly-determined bonus was expensed on a straight-line basis over the remaining term of the agreements. For the years ended December 31, 1990 and 1989, the expense relating to the incentive stock bonus agreements was approximately \$98,000 and \$67,000, respectively.

NOTE 9 - INCOME TAXES

The provision for income taxes consisted of the following for the years ended December 31, 1991, 1990, and 1989:

	1991	4	1990	1989
Current	\$ 515,000	\$	223,000	\$ 105,000
Deferred	166,000		621,000	387,000
	\$ 681,000	\$	844,000	\$ 492,000

The Company's effective tax rate for the years ended December 31, 1991 and 1990 differs from the Federal statutory tax rate for the following reasons:

Federal statutory	1991	1990	1989
tax rate	34.0%	34.0%	34.0%
over basis Excess of alternative	(31.3%)	(6.5%)	(15.0%)
minimum tax over tax at statutory			
tax rateOther	17.3% 6.5%	(0.7%)	0.4%
Effective tax rate	26.5%	26.8%	19.4%

For the years ended December 31, 1991, 1990 and 1989, utilization of book net operating loss carryforwards offset a portion of the provision for income taxes and were recognized as an extraordinary item.

As of December 31, 1991, the Company has available net operating loss carryforwards for Federal income tax purposes of approximately \$2,506,000 for regular tax which expire in 1999 through 2003, if not utilized, and none for alternative minimum tax. Utilization of a portion of these net operating loss carryforwards is limited. For financial statement reporting purposes, there were no net operating loss carryforwards for alternative minimum tax and \$303,000 for regular tax. These amounts differ from the Company's accumulated losses for Federal income tax purposes principally because of differences in the recognition of mineral exploration and development costs for financial and income tax reporting purposes. Also, significant losses of a company acquired in 1985 were incurred prior to the acquisition date and are not included in the loss carryforward for financial statement reporting purposes.

NOTE 10 - EXPLORATION AND DEVELOPMENT AGREEMENTS

On November 24, 1986 the Company entered into a joint venture agreement with Cominco American Resources, Inc., (Cominco) on the Kinsley Mountain Project in Elko County, Nevada. The project is currently in the exploration phase and is operated by Cominco. The Company owns a 40 percent working interest in the property and is obligated to pay its share of approved expenditures as incurred. During 1991, 1990, and 1989, respectively, the Company paid \$30,000, \$88,000 and \$86,000 to Cominco for its share of expenditures on the project.

The Company has entered into joint venture and/or lease agreements with third parties on certain unproved mineral properties located in Nevada and Montana. These agreements provide for either the Company or the third party to be the operator of the exploratory program and establish working interests for each party. Under these agreements the Company may retain working interests ranging from 35 percent to 40 percent or elect to take a royalty in lieu of participation. Certain of these agreements require the third party to contribute amounts in excess of their proportionate share in order to earn their working interest in the property.

NOTE 11 - CAPITAL STOCK

In connection with a public offering in 1987 of its common stock, the Company issued to the underwriter warrants to purchase 64,000 shares of common stock at an exercise price of \$6.75. The warrants are exercisable through April 6, 1993.

NOTE 12 - COMMITMENTS AND CONTINGENCIES PURCHASE OPTION AGREEMENT

In October 1991, the Company concluded a Purchase Option Agreement with Placer Dome U. S. Inc. ("Placer") granting to Placer the right to explore and purchase separately for \$5,000,000 and \$6,000,000 respectively, two contiguous blocks of ground (Block A and B) located within the Bida Trend (Top Pit-East Top area) portion of the Company's Alligator Ridge property.

(Continued)

Placer has committed to complete a minimum of \$500,000 of exploration work with respect to Block A before December 31, 1992. Block A includes the Top Mine area and East Top prospect in which the Company had previously defined a probable reserve containing 151,000 ounces of gold. Block A contains approximately 700 acres of patented and unpatented mining claims and represents about two percent of the total Company property holdings in the Alligator Ridge area. Placer may exercise its option to purchase Block A for \$5,000,000 at any time before March 1, 1993.

If the option to purchase Block A is exercised, within 45 days following such election, Placer may elect to preserve its option to acquire Block B by committing to expend a minimum of \$500,000 for exploration purposes on Block B before December 31, 1993. Block B is not known by the Company to contain any defined gold resources. Block B contains approximately 1,160 acres of unpatented mining claims and represents about 3.4 percent of the total Company property holdings in the Alligator Ridge area. Placer may exercise its option to purchase Block B for \$6,000,000 any time before March 1, 1994.

In addition to the purchase prices, the Company would be paid a Net Smelter Return Royalty in the event total cumulative production by Placer exceeds 270,000 ounces of gold in the case of Block A or 300,000 ounces of gold in the case of Block B. The royalty percentage varies from zero percent if the price of gold is less than \$400 per ounce to five percent if the price of gold is equal to or greater than \$480 per ounce. The gold price targets are to be adjusted annually based on movement in the Producer Price Index for Finished Goods.

Placer also purchased 1,000,000 shares of the Company's common stock at \$2.50 per share, for a total of \$2,500,000. Placer may require the Company to repurchase these shares at \$1.75 per share if Placer does not exercise its option to purchase Block A. The total potential purchase price of these shares is reflected in the accompanying consolidated statement of financial position as of December 31, 1991 as Common stock subject to potential put.

RECLAMATION BONDS

The United States Department of Interior, Bureau of Land Management (BLM) and the State of Nevada, Division of Environmental Protection (NDEP) jointly promulgated new mining reclamation and bonding rules effective October 1, 1990. Pursuant to the new rules, before operations are permitted to proceed under all new mining plans of operations or major plan modifications filed after the effective date, the operator is required to provide surety in an amount equal to the estimated cost to perform required reclamation. For purposes of determining the amount of surety required, the assumption is made that the reclamation work will be performed entirely by outside contractors with no involvement by the operator.

On July 3, 1991, pursuant to the new bonding rules, the Company provided reclamation surety in the amount of \$853,000 for its Casino/Winrock operation prior to commencement of mining operations at the Winrock site. The surety comprised a BLM bond in the amount of

\$215,000 collateralized by a certificate of deposit and application for a corporate guarantee pursuant to State of Nevada regulations for the balance of \$638,000. The State of Nevada has advised the BLM that the Company satisfies the financial tests established by Nevada regulations for providing the corporate guarantee. As the Company completes the required reclamation work, the surety will be reduced and the collateral will be returned. The certificate of deposit is reflected in *Other assets* in the accompanying consolidated statement of financial position as of December 31, 1991.

HEDGING

As of December 31, 1991, the Company has entered into forward sales contracts for 28,197 ounces of gold at an average selling price of \$371 per ounce. The gold is to be delivered on various dates through March 1, 1993. In addition, the Company has sold call options covering 13,600 ounces which expire at dates from January 29 through December 29, 1992 at strike prices ranging from \$365 per ounce to \$410 per ounce. The Company also has purchased put options covering 2,000 ounces which expire at the end of February and March 1992 at \$360 per ounce. All gold sales have been made to six unaffiliated customers. The Company does not believe the loss of these customers would affect its business.

OPERATING LEASES

The Company leases office space and vehicles under operating leases which expire through 1993. The following table sets forth the future minimum lease payment obligations as of December 31, 1991

Year	Minimum Leas	Lease Payments				
1992		\$	57,000			
1993		\$	6.000			

Rent expense was \$193,000, \$127,000 and \$104,000 for the years ended December 31, 1991, 1990 and 1989, respectively. The Company recognizes rent expense for its corporate offices on a straight-line basis over the term of the lease. The Company has the option of extending the lease on its corporate offices for a five year period commencing May 1, 1992 at the then prevailing market rate.

MINERAL LEASE AGREEMENTS

The Company has entered into various mineral lease agreements, cancelable at the Company's option, which require the Company to make varying amounts of work commitments or option payments.

(Continued)

NOTE 13 - LEGAL PROCEEDINGS

On November 6, 1990, the Company signed an agreement with its former president and founder and a corporation which is controlled by him which settled the Company's lawsuits against them. On November 9, 1990, the Company received \$475,000 in cash from its former president. The Company agreed to dismiss all its legal claims against its former president and transferred to him certain undeveloped and unproven mining claims in Pershing County, Nevada, which were the subject of one of the lawsuits. The proceeds of the settlement, less the cost of the claims transferred of approximately \$102,000, are included in *Other income* in 1990.

NOTE 14 - QUARTERLY DATA (UNAUDITED)

Quarterly earnings data for the years ended December 31, 1991 and 1990 follows:

(Amounts in thousands except per share data) 1991 Quarters		First		Second		Third		Fourth
Sales	\$	3,566 2,640	\$	3,366 2,427	\$	5,181 3,998	\$	4,348 2,891
Gross operating margin Operating expenses		926 775		939 845		1,183 1,228		1,457 633
Income (loss) from operations		151		94		(45)		824
Income before income taxes and extraordinary item	فرا	404	-	319	3.7	276		1,572
Net income	\$	338	\$	239	\$	220	\$	1,131
Net income per common share	\$	0.024	\$	0.017	\$	0.016	\$	0.076
1990 Quarters		First		Second		Third		Fourth
Sales	\$	2,954 2,201	\$	1,594 1,021	\$	4,119 2,078	\$	5,557 3,357
Gross operating margin		753 961		573 706		2,041 696	1-1	2,200 854
Income (loss) from operations	-51	(208)		(133)		1,345		1,346
Income before income taxes and extraordinary item		272		174		1,790		910
Net income	\$	212	\$	176	\$	1,438	\$	1,097
Net income per common share	\$	0.015	\$	0.013	\$	0.104	\$	0.079

During the fourth quarter of 1991, based on the grade and volume of solutions produced by the heaps at the Alligator Ridge Mine, management revised the estimate of ounces remaining upward by approximately 11,400 ounces to reflect an estimated 1992 production of 10, 500 ounces. This revision had the effect of significantly reducing the average cost of gold sold in 1991 and deferring approximately \$1.8 million in related inventory costs.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF USMX, INC.

We have audited the consolidated financial statements of financial position of USMX, INC. and Subsidiaries as of December 31, 1991 and 1990 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of USMX, INC. and Subsidiaries as of December 31, 1991 and 1990 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

Coopers & Lybrand Denver, Colorado March 23, 1992

(A	1 . \		1		-		A Party		
(Amounts in thousands except per share a December 31,	lata)	1991		1990		1989		1988	1987
FINANCIAL CONDITION									
Working capital	\$	11,427	\$	10,582	\$	8,808	\$	5,644	\$ 8,978
Current assets		14,140		12,821		10,095		6,974	9,258
Total assets		26,195		21,132		15,651		13,465	12,048
Current liabilities		2,713		2,239		1,287		1,330	280
Long term liabilities		1,680		1,534		101		200	0
Stockholders' equity	\$	20,052	\$	17,359	\$	14,283	\$	11,824	\$ 11,699
		4-7							
Year Ended December 31,		1991		1990		1989		1988	1987
STATEMENT OF OPERATIONS									
Revenue	\$	17,564	\$	16,188	\$	14,556	\$	5,760	\$ 789
Income (loss) from									
continuing operations		1,928		2,923		2,435		(55)	(1,310)
Net income (loss)		1,928		2,923		2,435		(55)	(1,310)
Net income (loss) per share	\$	0.14	\$	0.21	\$	0.18	\$	() (<u>-</u>	\$ (0.10)

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is traded on the NASDAQ National Market System under the symbol, "USMX". The range of high and low bid quotations for each quarterly period since January, 1990 as furnished by NASDAQ is as follows:

	High		Low
1990			
First Quarter	\$ 2.82	\$	1.50
Second Quarter	1.75		1.25
Third Quarter	2.13		1.31
Fourth Quarter	1.50		1.00
1991			1.00
First Quarter	1.69		1.00
Second Quarter	2.06		1.12
Third Quarter	2.06		1.44
Fourth Quarter	\$ 2.06	>	1.31

The above quotations reflect inter-dealer prices, without retail markup, mark-down or commissions and may not necessarily represent actual transactions. At March 16, 1992, the approximate number of holders of record of the Company's Common Stock was 4,901. No cash dividends have been paid by the Company. The Company does not anticipate paying cash dividends in the near future.

CORPORATE DIRECTORY



LEGAL COUNSEL

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Denver, Colorado 80202

AUDITORS
Coopers & Lybrand
370 17th Street, Suite 3300
Denver, Colorado 80202

TRANSFER AGENT American Securities Transfer 938 Quail Street, Suite 101 Lakewood, Colorado 80215 (303) 234-5300

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(From L to R—standing) Gregory Pusey, George J. Allen, Stanton B. Bennett, Robert Scullion, (From L to R—sitting) Michael L. Clark, James A. Knox, John M. Willson, Terry P. McNulty (Not pictured)

DIRECTORS

James A. Knox, Director; President and Chief Executive Officer

George J. Allen, Director; President of Allen Engineering Company

Stanton B. Bennett, Director

Michael L. Clark, Director; Executive Vice President of Pegasus Gold Inc.

Terry P. McNulty, Director; President of T.P. McNulty & Associates Inc.

Gregory Pusey, Director; President of Livingston Capital Ltd.

Robert Scullion, Director; Partner of Scullion, Beekmann & Company

John M. Willson, Director; President and Chief Executive Officer of Pegasus Gold Inc.



(From L to R) Dennis L. Lance, Paul B. Valenti, Donald E. Nilson

OFFICERS

Dennis L. Lance, Vice President - Exploration

Donald E. Nilson, Vice President - Finance, Secretary & Treasurer

Paul B. Valenti, Vice President - Operations

ANNUAL MEETING

Thursday, May 14, 1992 Sheraton Denver West Hotel & Conference Center, 360 Union Boulevard, Lakewood, Colorado, 80228 Union Square Theatre Room 3:00 p.m. A copy of the 10-K may be obtained by written request to the Executive Offices of USMX, INC.

